

CITY OF UNDERWOOD
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

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CITY OF UNDERWOOD

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Bardsley	Mayor	January 2014
Robert Dose	Mayor Pro-Tem	January 2016
Edward Freuck	Council Member	January 2014
Jim Pingel	Council Member	January 2014
Todd Erwin	Council Member	January 2016
David Powell	Council Member	January 2016
Kelly Groskurth	City Clerk	Indefinite
Lea Voss	City Treasurer	Appointed yearly
Matthew Woods	City Attorney	Indefinite

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

September 12, 2013

Independent Auditor's Report

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Certified Public
Accountant

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Iowa
Missouri

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes that determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Continued . . .

Auditor's Responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Underwood's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

To the Honorable Mayor and
Members of the City Council:

Other Matters (Continued)

Supplementary and Other Information

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 33 through 35 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated September 12, 2013 on my consideration of the City of Underwood's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Underwood's internal control over financial reporting and compliance.

Murphy & Associates, CPA, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Underwood provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 20%, or approximately \$247,000, from fiscal year 2012 to fiscal year 2013. Grants, contributions and restricted interest increased approximately \$4,600.

Disbursements of the City's governmental activities decreased 2.7%, or approximately \$25,000 in fiscal year 2013 from fiscal year 2012. Public works, public safety and debt service disbursements decreased approximately \$24,000, \$18,000 and \$5,000, respectively. Community and economic development and general government disbursements increased approximately \$154,000 and \$8,000, respectively.

The City's total cash basis net position increased 2.3% or approximately \$25,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities decreased approximately \$26,000 and the cash basis net position of the business type activities increased approximately \$52,000.

USING THIS REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the sanitary sewer system and garbage collection. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as the Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Funds, such as the Sewer Improvement Project. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Sewer and Garbage Funds. The Sewer Fund is considered a major fund of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$666,000 to \$640,000. The analysis that follows focuses on the changes in cash basis netposition of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities			
	Year Ended June 30,		Year Ended June 30,
	2013		2012
Receipts:			
Program receipts:			
Charges for services	\$	47,017	\$ 30,771
Operating grants, contributions and restricted interest		215,134	182,097
Capital grants, contributions and restricted interest		6,575	34,963
General receipts:			
Property tax		308,902	313,228
Tax increment financing		138,374	132,638
Local option sales tax		95,905	104,829
Unrestricted investment earnings		-0-	-0-
Miscellaneous		-0-	673
Sale of property		7,651	-0-
Total receipts		819,558	799,199
Disbursements:			
Public safety		66,461	85,024
Public works		145,866	169,873
Culture and recreation		24,346	24,391
Community and economic development		309,896	155,806
General government		156,684	147,998
Debt service		118,839	124,397
Capital projects		-0-	-0-
Total disbursements		822,092	707,489
Change in cash basis net position before transfers		(2,534)	91,710
Transfers, net		(23,976)	(26,507)
Change in cash basis net position		(26,510)	65,203
Cash basis net position, beginning of year		666,444	601,241
Cash basis net position, end of year	\$	639,934	\$ 666,444

The City's total receipts for governmental activities increased 2.5%, or approximately \$20,000. The total cost of all programs and services increased approximately \$114,000, or 16%, with no new programs added this year.

Significant increases to governmental receipts included \$33,037 in operating grants, contributions and restricted interest, approximately \$16,000 in charges for services and \$7,651 for the sale of assets.

The cost of all governmental activities this year was approximately \$822,000 compared to approximately \$707,000 last year. However, as shown in the Statement of Activities and Net Position on pages 14 and 15, the amount taxpayers ultimately financed for these activities was only \$553,366 because some of the cost was paid by those directly benefited from the programs (\$47,017) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$221,709). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2013 from approximately \$248,000 to \$269,000, principally due to township fire and rescue fees collected.

Changes in Cash Basis Net Position of Business Type Activities			
	Year Ended		Year Ended
	June 30,		June 30,
	2013		2012
Receipts:			
Program receipts:			
Charges for services and sales:			
Sewer	\$	116,169	\$ 107,218
Garbage		40,082	40,108
Operating grants, contributions and restricted interest		-0-	-0-
Capital grants, contributions and restricted interest		-0-	90,795
General receipts:			
Miscellaneous		7,500	-0-
Restricted interest		100	83
Net note proceeds		-0-	193,000
Total receipts		<u>163,851</u>	<u>431,204</u>
Disbursements:			
Sewer		98,124	190,191
Garbage		37,552	35,274
Total disbursements		<u>135,676</u>	<u>225,465</u>
Change in cash basis net position before transfers		28,175	205,739
Transfers, net		<u>23,976</u>	<u>26,507</u>
Change in cash basis net position		52,151	232,246
Cash basis net position, beginning of year		<u>444,570</u>	<u>212,324</u>
Cash basis net position, end of year	\$	<u>496,721</u>	\$ <u>444,570</u>

Total business type activities receipts for the fiscal year were approximately \$164,000 compared to approximately \$431,000 last year. The cash balance increased approximately \$52,000 from the prior year primarily due to sewer and garbage rate increases and insurance proceeds from lift station damage.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Underwood completed the year, its governmental funds reported a combined fund balance of \$639,934, a decrease of \$26,510 from last year's total of \$666,444.

The General Fund cash balance decreased \$97,347 from the prior year to \$239,083 at year end. The City constructed a business incubator building on Main Street as part of its Main Street Revitalization program.

The Special Revenue Fund, Road Use Tax Fund cash balance increased \$29,192 to \$241,437. In fiscal year 2012, the Street Department hired a second full time person and purchased a tar and seal coating machine to bring more street maintenance in house. The cost savings were especially apparent in fiscal year 2013.

The Special Revenue Fund, Urban Renewal Tax Increment Fund was established to account for the Fieldcrest Addition, the Eagle Landing Subdivision and the City's Housing Rehabilitation Program. City Council approved an amendment to the City's Urban Renewal Plan putting the Links Snacks facility in an urban renewal area. The City also signed a tax incremental finance agreement with Links Snacks, Inc. The fund's cash balance increased by \$48,630 to \$153,629 at year end.

The Debt Service Fund cash balance decreased \$4,551 to \$-0- from the prior year. Principal and interest payments were \$118,839, tax receipts were \$69,360, the general fund transferred in \$44,928.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise Fund, Sewer Fund cash balance increased \$49,621 to \$457,657 from the prior year. Several factors contributed to the increase such as the Jack Links Plant in operation the full fiscal year, a Council approved sewer rate increase and an insurance settlement after a contractor damaged a lift station.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The first amendment was approved on March 12, 2013 and increased budgeted receipts and increased economic and community development disbursements for the construction of the business incubator building on main street. The second amendment was approved on June 11, 2013 and increased budgeted disbursements for public safety and community and economic development functions. Disbursements exceeded amounts budgeted in the public safety function while other functions stayed within budget for the year ended June 30, 2013.

The City's receipts were approximately \$68,000 more than budgeted.

The City's disbursements were approximately \$138,000 less than budgeted.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$657,047 in bonds and notes outstanding, compared to \$786,758 last year, as shown below.

Outstanding Debt at Year-End			
	Year Ended June 30, 2013		Year Ended June 30, 2012
General obligation notes	\$ 402,047	\$	501,758
Sewer revenue notes	255,000		285,000
Total	\$ 657,047	\$	786,758

No new debt was issued in 2013. Outstanding principal was reduced by \$117,193. Interest costs for the fiscal year were \$27,869.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$402,047 is significantly below its constitutional debt limit of approximately \$2.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Underwood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities. One of those factors is the economy. As a bedroom community of a major metropolitan area, housing continues to move as new families take residence in the Community.

These factors were taken into account when adopting the budget for fiscal year 2014. The mill levy decreased \$1.97 from \$13.97685 to \$12.78016, largely due to increased valuations. Disbursements are expected to decrease approximately \$100,000, primarily due to virtual completion of the business incubator building on Main Street.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$20,000 by the close of fiscal year 2014.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kelly Groskurth, City Clerk, at 218 2nd Street, Underwood, Iowa 51576.

BASIC FINANCIAL STATEMENTS

CITY OF UNDERWOOD

STATEMENT OF ACTIVITIES AND NET POSITION - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 66,461	\$ 33,409	\$ 113,677	\$ -0-
Public works	145,866	-0-	92,092	-0-
Cultures and recreation	24,346	1,800	-0-	-0-
Community and economic development	309,896	-0-	89	-0-
General government	156,684	11,808	9,276	6,575
Debt service	118,839	-0-	-0-	-0-
Total governmental activities	822,092	47,017	215,134	6,575
Business type activities:				
Sewer	98,124	116,169	-0-	-0-
Garbage	37,552	40,082	-0-	-0-
Total business type activities	135,676	156,251	-0-	-0-
Total	\$ 957,768	\$ 203,268	\$ 215,134	\$ 6,575

Property taxes levied for:
 General purposes
 Debt service
 Tax increment financing
 Local option sales tax
 Unrestricted investment earnings
 Miscellaneous
 Sale of assets
 Transfers
 Total general receipts

Change in cash basis net assets

Cash basis net assets, beginning of year

Cash basis net assets, end of year

Cash basis net position

Restricted:

Expendable:

Streets

Urban renewal

Other purposes

Unrestricted

Total cash basis net position

EXHIBIT A

<u>Net (Disbursements), Receipts and Changes in Net Position</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 80,625	\$ -0-	\$ 80,625
(53,774)	-0-	(53,774)
(22,546)	-0-	(22,546)
(309,807)	-0-	(309,807)
(129,025)	-0-	(129,025)
(118,839)	-0-	(118,839)
<u>(553,366)</u>	<u>-0-</u>	<u>(553,366)</u>
-0-	18,045	18,045
-0-	2,530	2,530
<u>-0-</u>	<u>20,575</u>	<u>20,575</u>
(553,366)	20,575	(532,791)
239,542	-0-	239,542
69,360	-0-	69,360
138,374	-0-	138,374
95,905	-0-	95,905
-0-	100	100
-0-	7,500	7,500
7,651	-0-	7,651
(23,976)	23,976	-0-
<u>526,856</u>	<u>31,576</u>	<u>558,432</u>
(26,510)	52,151	25,641
<u>666,444</u>	<u>444,570</u>	<u>1,111,014</u>
\$ <u>639,934</u>	\$ <u>496,721</u>	\$ <u>1,136,655</u>
\$ 153,629	\$ -0-	\$ 153,629
241,437	-0-	241,437
5,785	-0-	5,785
239,083	496,721	735,804
\$ <u>639,934</u>	\$ <u>496,721</u>	\$ <u>1,136,655</u>

See notes to financial statements.

CITY OF UNDERWOOD

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 172,458	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	138,374
Other city tax	-0-	-0-	-0-
Licenses and permits	11,605	-0-	-0-
Use of money and property	913	-0-	89
Intergovernmental	110,208	90,226	-0-
Charges for services	25,223	-0-	-0-
Miscellaneous	28,596	1,866	-0-
Total receipts	349,003	92,092	138,463
Disbursements:			
Operating:			
Public safety	65,152	-0-	-0-
Public works	-0-	134,829	-0-
Culture and recreation	10,943	-0-	-0-
Community and economic development	218,772	-0-	89,833
General government	113,262	-0-	-0-
Debt service	-0-	-0-	-0-
Total disbursements	408,129	134,829	89,833
Excess (deficiency) of receipts over (under) disbursements	(59,126)	(42,737)	48,630
Other financing sources (uses):			
Sale of assets	7,651	-0-	-0-
Operating transfers in	-0-	71,929	-0-
Operating transfers out	(45,872)	-0-	-0-
Total other financing sources (uses)	(38,221)	71,929	-0-
Net change in cash balances	(97,347)	29,192	48,630
Cash balances, beginning of year	336,430	212,245	104,999
Cash balances, end of year	\$ 239,083	\$ 241,437	\$ 153,629
Cash Basis Fund Balances			
Restricted for:			
Urban renewal purposes	\$ -0-	\$ -0-	\$ 153,629
Streets	-0-	241,437	-0-
Other purposes	-0-	-0-	-0-
Unassigned	239,083	-0-	-0-
Total cash basis fund balances	\$ 239,083	\$ 241,437	\$ 153,629

See notes to financial statements.

EXHIBIT B

	Debt Service	Other Non-major Governmental Funds	Total
\$	69,360	\$ 67,084	\$ 308,902
	-0-	-0-	138,374
	-0-	95,905	95,905
	-0-	-0-	11,605
	-0-	-0-	1,002
	-0-	-0-	200,434
	-0-	-0-	25,223
	-0-	-0-	30,462
	69,360	162,989	811,907
	-0-	1,309	66,461
	-0-	11,037	145,866
	-0-	13,403	24,346
	-0-	1,291	309,896
	-0-	43,422	156,684
	118,839	-0-	118,839
	118,839	70,462	822,092
	(49,479)	92,527	(10,185)
	-0-	-0-	7,651
	44,928	944	117,801
	-0-	(95,905)	(141,777)
	44,928	(94,961)	(16,325)
	(4,551)	(2,434)	(26,510)
	4,551	8,219	666,444
\$	-0-	\$ 5,785	\$ 639,934
\$	-0-	\$ -0-	\$ 153,629
	-0-	-0-	241,437
	-0-	5,785	5,785
	-0-	-0-	239,083
\$	-0-	\$ 5,785	\$ 639,934

CITY OF UNDERWOOD

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Funds		
	Sewer	Garbage	Total
Operating receipts:			
Charges for services	\$ 115,316	\$ 39,841	\$ 155,157
Special assessment	560	231	791
Miscellaneous	293	10	303
Total receipts	<u>116,169</u>	<u>40,082</u>	<u>156,251</u>
Operating disbursements:			
Business type activities	<u>59,383</u>	<u>37,552</u>	<u>96,935</u>
Total disbursements	<u>59,383</u>	<u>37,552</u>	<u>96,935</u>
Operating income	56,786	2,530	59,316
Non-operating receipts (disbursements):			
Interest	100	-0-	100
Miscellaneous	7,500	-0-	7,500
Debt service	<u>(38,741)</u>	<u>-0-</u>	<u>(38,741)</u>
Total non-operating receipts (disbursements)	<u>(31,141)</u>	<u>-0-</u>	<u>(31,141)</u>
Excess of receipts over disbursements	25,645	2,530	28,175
Other financing sources (uses):			
Operating transfer in	<u>23,976</u>	<u>-0-</u>	<u>23,976</u>
Other financing sources (uses)	<u>23,976</u>	<u>-0-</u>	<u>23,976</u>
Net change in cash balance	49,621	2,530	52,151
Cash balances, beginning of year	<u>408,036</u>	<u>36,534</u>	<u>444,570</u>
Cash balances, end of year	\$ <u>457,657</u>	\$ <u>39,064</u>	\$ <u>496,721</u>
Cash Basis Fund Balances			
Unrestricted	\$ <u>457,657</u>	\$ <u>39,064</u>	\$ <u>496,721</u>
Total cash basis fund balances	\$ <u>457,657</u>	\$ <u>39,064</u>	\$ <u>496,721</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies

The City of Underwood is a political subdivision of the State of Iowa and located in Pottawattamie County. It was first incorporated in 1902 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general administrative services. The City also provides sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Underwood has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board and commissions: Pottawattamie County Assessor's Conference Board, City Assessor's Conference Board and Pottawattamie County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges from services.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

The Cash Basis Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories:

Nonspendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provision or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often have constraints on resources imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: 1) charges to customers or applicants whose purchase, or use directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for the payment of interest and principal on the city's general long-term debt.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. For the year ended June 30, 2013, disbursements exceeded budget amounts in the public safety function.

**CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

(2) Cash and Pooled Investments

The City's deposits in bank at June 30, 2013, were covered entirely by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash on hand, cash in bank and certificates of deposit, held at two local institutions in the City's name totaled \$1,136,655 as of June 30, 2013.

Interest Rate Risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 71,106	\$ 15,930	\$ 30,000	\$ 7,796	\$ 101,106	\$ 23,726
2015	77,093	13,184	30,000	6,851	107,093	20,035
2016	78,848	10,179	30,000	5,906	108,848	16,085
2017	55,000	7,350	30,000	4,961	85,000	12,311
2018	60,000	5,040	30,000	4,016	90,000	9,056
2019	60,000	2,520	30,000	3,071	90,000	5,591
2020	-0-	-0-	30,000	2,126	30,000	2,126
2021	-0-	-0-	30,000	1,181	30,000	1,181
2022	-0-	-0-	15,000	238	15,000	238
Total	\$ 402,047	\$ 54,203	\$ 255,000	\$ 36,146	\$ 657,047	\$ 90,349

General Obligation Street Improvement Note, 2003

On June 16, 2003, the City financed the 2nd Avenue street paving project through a local bank. The \$150,000 note bears interest at 3.86%, requires 19 semiannual installment of \$9,111, and matured June 16, 2013.

General Obligation Fire Rescue Vehicle Note, 2003

On February 28, 2003, the City financed the purchase of a fire rescue vehicle with a local bank. The \$100,000 note bears interest at 4.27%, requires semiannual installments of \$6,155, and matures January 1, 2013.

General Obligation Fire Equipment Note, 2007

On June 21, 2007, the City financed the purchase of a pumper truck with a local bank. The \$174,000 note bears interest at 4.90%, requires semiannual installments of \$12,038, and matures June 1, 2016.

General Obligation Corporate Purpose Bonds, Series 2009

On April 15, 2009, the City issued bonds to finance street repairs to 3rd Street and the purchase of an ambulance. The \$495,000 bonds bear interest ranging from 2.25% to 4.20%, requires semiannual installments of interest and annual retirements of bonds (approximately \$65,000 annually), and matures June 1, 2019.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(3) Bonds and Notes Payable (Continued)

Sewer Revenue Note

On January 31, 2012, the City issued a \$300,000 sewer revenue note with a local bank. The note bears interest at 3.15%, required semi-annual principal and interest payments, and matures June 1, 2022.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$300,000 of a sewer revenue note issued January 31, 2012. Proceeds from the note provided financing for sewer improvements. The note is payable solely from sewer customer net receipts and are payable through 2022.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$11,464, \$8,895 and \$6,649, respectively, equal to the required contributions for each year.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides a medical/prescription drug benefits for retirees and their spouses. There are 3 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums of the City and plan members are \$1,189 for family coverage. For the year ended June 30, 2013, the City contributed \$30,307 and the plan members eligible for benefits contributed \$9,517.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and comp time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time termination payments payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2013</u>
Vacation	\$ 4,132
Comp time	753
	<u>\$ 4,885</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$250 during the year ended June 30, 2013.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013, is as follows:

Transfer to	Transfer from	Amount
Special Revenue - Road Use	Special Revenue - Local Option	\$ 71,929
Enterprise - Sewer	Special Revenue - Local Option	23,976
Special Revenue - Tort	General	944
Debt Service	General Fund	44,928
Total		<u>\$ 141,777</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claim expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(9) Risk Management (Continued)

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2013 were \$20,949.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage of \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all liability claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(9) Risk Management (Continued)

The City also carries workers' compensation insurance purchased from the Iowa Municipalities Workers' Compensation Association, IMWCA. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Urban Renewal Tax Increment Financing Development Agreements

Shiloh Industries Agreement

On December 10, 2003, the City entered into a development agreement with McKee Contracting. The developer agreed to construct residential infrastructure such as storm sewers, pavement, sanitary sewers, hydrants, and streetlights in the Fieldcrest Urban Renewal Area of the City. The City voided the original agreement and entered into a new agreement with Shiloh Industries. The developer requested and the City agreed to make economic development tax increment payments to the developer each year during the term of the agreement. For the year ended June 30, 2013, the City rebated \$28,780 to Shiloh Industries. The City certifies to the County Auditor by December 1 of each year the following year's tax increment financing request. Per terms of the agreement and in accordance with provisions of Section 403.22 of the Code of Iowa, the City retains 35.1% of the incremental tax receipts for the purpose of providing assistance to low and moderate income households. For the year ended June 30, 2013, the City received \$44,346 of tax increment financing receipts and retained the required percentage per terms of the agreement.

Eagle Landing Development Agreement

On January 9, 2001, the City entered into a development agreement with HLH Development, L.C. The developer agreed to construct infrastructure within the City's Urban Renewal Area South legally described as Eagle Landing Subdivision for the purpose of constructing housing units. In exchange, the City agreed to rebate to the developer semi-annual economic development tax increment payments based upon eligible costs of approximately \$300,785 plus interest of 6% per annum calculated from December 1, 2000. For the year ended June 30, 2013, the City rebated \$61,052 incremental taxes to HLH Development, L.C. Per terms of the agreement and in accordance with provisions of Section 403.22 of the Code of Iowa the City retains 20% of the incremental tax receipts to provide assistance related to housing for low and moderate income families. For the year ended June 30, 2013, the City received \$94,028 of tax increment financing receipts and retained the required percentage per terms of the agreement.

CITY OF UNDERWOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(11) Commitments

The City renewed an agreement for law enforcement services with Pottawattamie County. The fee for the year ended June 30, 2013 was \$16,048.

The City has extended an agreement with M & K Tree Service, Inc. for solid waste collection through 2015 at a cost of \$11.09 (with annual optional incremental fuel increases) per month per household or commercial unit.

(12) Subsequent Events

On July 9, 2013, the City issued a general obligation street improvement note to finance street improvements on Clarke Street. The \$190,000 note bears interest at 2.82%, requires semiannual installments of \$12,025, and matures June 1, 2023.

OTHER INFORMATION

CITY OF UNDERWOOD

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

OTHER INFORMATION

YEAR ENDED JUNE 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 308,902	\$ -0-
Tax increment financing	138,374	-0-
Other city tax	95,905	-0-
Licenses and permits	11,605	-0-
Use of money and permits	1,002	100
Intergovernmental	200,434	-0-
Charges for services	25,223	155,157
Special assessments	-0-	791
Miscellaneous	30,462	7,803
Total receipts	<u>811,907</u>	<u>163,851</u>
Disbursements:		
Public safety	66,461	-0-
Public works	145,866	-0-
Health and social services	-0-	-0-
Culture and recreation	24,346	-0-
Community and economic development	309,896	-0-
General government	156,684	-0-
Debt service	118,839	-0-
Capital projects	-0-	-0-
Business type	-0-	135,676
Total disbursements	<u>822,092</u>	<u>135,676</u>
Excess (deficiency) of receipts over (under) disbursements	(10,185)	28,175
Other financing sources, net	<u>(16,325)</u>	<u>23,976</u>
Excess (deficiency) of receipts and other financing sources	(26,510)	52,151
Balance beginning of year	<u>666,444</u>	<u>444,570</u>
Balance end of year	\$ <u>639,934</u>	\$ <u>496,721</u>

See Accompanying Independent Auditor's Report.

		Budgeted Amounts		Final to
Total		Original	Final	Total
				Variance
\$	308,902	\$ 300,514	\$ 299,644	\$ 9,258
	138,374	159,000	149,000	(10,626)
	95,905	90,413	90,394	5,511
	11,605	3,950	3,950	7,655
	1,102	1,090	1,090	12
	200,434	180,636	185,636	14,798
	180,380	154,340	164,340	16,040
	791	-0-	-0-	791
	38,265	1,500	13,500	24,765
	<u>975,758</u>	<u>891,443</u>	<u>907,554</u>	<u>68,204</u>
	66,461	62,195	66,195	(266)
	145,866	156,177	156,177	10,311
	-0-	-0-	-0-	-0-
	24,346	41,333	41,333	16,987
	309,896	204,050	350,000	40,104
	156,684	160,409	160,409	3,725
	118,839	118,839	118,839	-0-
	-0-	-0-	-0-	-0-
	135,676	196,068	203,068	67,392
	<u>957,768</u>	<u>939,071</u>	<u>1,096,021</u>	<u>138,253</u>
	17,990	(47,628)	(188,467)	(206,457)
	<u>7,651</u>	<u>-0-</u>	<u>-0-</u>	<u>7,651</u>
	25,641	(47,628)	(188,467)	(214,108)
	<u>1,111,014</u>	<u>1,111,014</u>	<u>1,111,014</u>	<u>-0-</u>
\$	<u>1,136,655</u>	\$ <u>1,063,386</u>	\$ <u>922,547</u>	\$ <u>(214,108)</u>

CITY OF UNDERWOOD

NOTES TO OTHER INFORMATION - BUDGETARY REPORTING

JUNE 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted receipts by \$16,111 and disbursements by \$156,950. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded amounts budgeted in the public safety function.

SUPPLEMENTARY INFORMATION

CITY OF UNDERWOOD

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue	
	Emergency	Employee Benefits
Receipts:		
Property tax	\$ -0-	\$ 47,020
Other city tax	-0-	-0-
Total receipts	-0-	47,020
Disbursements:		
Operating:		
Public safety	-0-	1,309
Public works	-0-	11,037
Culture and recreation	-0-	13,403
Community and economic development	-0-	1,291
General government	-0-	22,414
Total disbursements	-0-	49,454
Excess (deficiency) of receipts over (under) disbursements	-0-	(2,434)
Other financing sources (uses):		
Operating transfers in	-0-	-0-
Operating transfers out	-0-	-0-
Net financing sources (uses)	-0-	-0-
Net change in cash balances	-0-	(2,434)
Cash balances beginning of year	4,204	4,015
Cash balances end year	\$ 4,204	\$ 1,581
Cash Basis Fund Balances		
Restricted for other purposes	\$ 4,204	\$ 1,581
Total cash basis fund balances	\$ 4,204	\$ 1,581

See Accompanying Independent Auditor's Report

SCHEDULE 1

Special Revenue		
Insurance	Local Option Sales Tax	Total
\$ 20,064	\$ -0-	\$ 67,084
-0-	95,905	95,905
20,064	95,905	162,989
-0-	-0-	1,309
-0-	-0-	11,037
-0-	-0-	13,403
-0-	-0-	1,291
21,008	-0-	43,422
21,008	-0-	70,462
(944)	95,905	92,527
944	-0-	944
-0-	(95,905)	(95,905)
944	(95,905)	(94,961)
-0-	-0-	(2,434)
-0-	-0-	8,219
\$ -0-	\$ -0-	\$ 5,785
\$ -0-	\$ 0-	\$ 5,785
\$ -0-	\$ -0-	\$ 5,785

CITY OF UNDERWOOD
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2013

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Street Improvement Note	June 16, 2003	3.86 %	\$ 150,000
Fire Rescue Vehicle Note	February 28, 2003	4.27 %	\$ 100,000
Fire Equipment Note	June 21, 2007	4.90 %	\$ 174,000
Corporate Purpose Bonds	April 15, 2009	2.25 - 4.20 %	\$ 495,000
Sewer Revenue Notes			
Anticipation Project Note	October 27, 2010	2.25%	\$ 300,000
Sewer Revenue Note	January 31, 2012	3.15%	\$ 300,000

See Accompanying Independent Auditor's Report.

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 17,717	\$ -0-	\$ 17,660	\$ 57	\$ 418	\$ 178
12,036	-0-	12,036	-0-	398	-0-
87,005	-0-	20,015	66,990	4,062	274
<u>385,000</u>	<u>-0-</u>	<u>50,000</u>	<u>335,000</u>	<u>14,250</u>	<u>1,060</u>
\$ <u>501,758</u>	\$ <u>-0-</u>	\$ <u>99,711</u>	\$ <u>402,047</u>	\$ <u>19,128</u>	\$ <u>1,512</u>
\$ 285,000	\$ -0-	\$ 30,000	\$ 255,000	\$ 8,741	\$ 669
<u>\$ 285,000</u>	<u>\$ -0-</u>	<u>\$ 30,000</u>	<u>\$ 255,000</u>	<u>\$ 8,741</u>	<u>\$ 669</u>

CITY OF UNDERWOOD
BOND AND NOTE MATURITIES
JUNE 30, 2013

General Obligation Bonds and Notes

Year Ending June 30,	Street Improvements Issued June 16, 2003		Fire Truck Note Issued June 21, 2007	
	Interest Rate	Amount	Interest Rate	Amount
2014	3.86%	\$ 57	\$ 4.90%	\$ 21,049
2015	--	-0-	4.90%	22,093
2016	--	-0-	4.90%	23,848
2017	--	-0-	--	-0-
2018	--	-0-	--	-0-
2019	--	-0-	--	-0-
Total		\$ <u>57</u>		\$ <u>66,990</u>

Year Ending June 30,	Essential Corporate Purpose Bonds Issued April 15, 2009		Total
	Interest Rate	Amount	
2014	3.05%	\$ 50,000	\$ 71,106
2015	3.05%	55,000	77,093
2016	3.50%	55,000	78,848
2017	3.50%	55,000	55,000
2018	4.20%	60,000	60,000
2019	4.20%	60,000	60,000
Total		\$ <u>335,000</u>	\$ <u>402,047</u>

See Accompanying Independent Auditor's Report.

Sewer Revenue Note

Year Ending June 30,	Sewer Revenue Note Issued January 31, 2012		Total
	Interest Rate	Amount	
2014	3.15%	\$ 30,000	\$ 30,000
2015	3.15%	30,000	30,000
2016	3.15%	30,000	30,000
2017	3.15%	30,000	30,000
2018	3.15%	30,000	30,000
2019	3.15%	30,000	30,000
2020	3.15%	30,000	30,000
2021	3.15%	30,000	30,000
2022	3.15%	15,000	15,000
Total		\$ <u>255,000</u>	\$ <u>255,000</u>

CITY OF UNDERWOOD

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS**

FOR THE LAST NINE YEARS

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Receipts:				
Property taxes	\$ 308,902	\$ 313,228	\$ 304,106	\$ 293,877
Tax increment financing	138,374	132,638	138,597	123,215
Other city taxes	95,905	104,829	83,453	70,550
License and permits	11,605	4,292	7,420	7,920
Use of money and property	1,002	778	1,459	1,592
Intergovernmental	200,434	210,675	176,971	156,597
Charges for service	25,223	21,858	29,557	14,424
Special assessments	-0-	631	-0-	80
Miscellaneous	<u>30,462</u>	<u>10,270</u>	<u>4,604</u>	<u>14,845</u>
Total	\$ <u>811,907</u>	\$ <u>799,199</u>	\$ <u>746,167</u>	\$ <u>683,100</u>
Disbursements:				
Operating:				
Public safety	\$ 66,461	\$ 85,024	\$ 159,372	\$ 244,484
Public works	145,866	169,873	137,970	114,943
Health and social services	-0-	-0-	-0-	-0-
Culture and recreation	24,346	24,391	22,980	28,358
Comm and economic dev	309,896	155,806	128,010	137,592
General government	156,684	147,998	144,403	129,953
Debt service	118,839	124,397	137,599	127,722
Capital projects	<u>-0-</u>	<u>-0-</u>	<u>82,859</u>	<u>-0-</u>
Total	\$ <u>822,092</u>	\$ <u>707,489</u>	\$ <u>813,193</u>	\$ <u>783,052</u>

See accompanying independent auditor's report.

SCHEDULE 4

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$	270,827	\$ 256,042	\$ 231,541	\$ 212,017	\$ 205,970
	107,394	105,459	112,347	76,287	98,565
	90,339	77,247	85,383	90,562	76,458
	10,133	14,064	5,840	7,936	8,683
	6,600	16,071	12,858	3,378	1,252
	391,438	203,803	154,660	129,724	148,400
	16,255	10,954	9,893	15,763	37,616
	-0-	461	-0-	15	168
	<u>35,613</u>	<u>3,946</u>	<u>20,544</u>	<u>28,412</u>	<u>10,762</u>
\$	<u>928,599</u>	\$ <u>688,047</u>	\$ <u>633,066</u>	\$ <u>564,094</u>	\$ <u>587,874</u>
\$	48,252	\$ 63,655	\$ 244,708	\$ 165,080	\$ 80,432
	95,392	90,412	41,769	61,710	96,443
	-0-	-0-	-0-	-0-	650
	22,519	15,818	22,324	12,380	23,735
	147,032	160,643	123,243	107,790	97,029
	126,105	122,462	116,766	126,730	112,466
	107,177	98,114	96,850	91,668	125,109
	<u>372,950</u>	<u>249,091</u>	<u>28,072</u>	<u>85,151</u>	<u>-0-</u>
\$	<u>919,427</u>	\$ <u>800,195</u>	\$ <u>673,732</u>	\$ <u>650,509</u>	\$ <u>535,864</u>

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MUXFELDT ASSOCIATES, CPA, P.C.

September 12, 2013

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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Iowa
Missouri

To the Honorable Mayor and
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Underwood, Iowa as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated September 12, 2013. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Underwood's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Underwood's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Underwood's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified a deficiency in internal control that I consider to be a material weakness.

Continued . . .

To the Honorable Mayor and
Members of the City Council:

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Underwood's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in Part I of the accompanying Schedule of Findings as items I-A-13 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. No significant deficiencies were noted.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Underwood's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Underwood's Responses to Findings

The City of Underwood's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. The City of Underwood's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Continued . . .

September 12, 2013
Page Three

To the Honorable Mayor and
Members of the City Council

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Underwood during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Murphy Associates, CPA, P.C.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES

I-A-13 Segregation of Duties

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For example, the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all performed by the same person.

Recommendation - I realize that with one full time city clerk and a part time deputy clerk, a proper segregation of duties is challenging. However, City Council should monitor control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget - Disbursements during the year ended June 30, 2013, exceeded the amounts budgeted in the public safety function.

Recommendation - The budget should have been amended in accordance with Chapter 384.14 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in future, if applicable.

Conclusion - Response accepted.

II-B-13 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013**

Part II: Other Findings Related to Required Statutory Reporting (Continued):

II-C-13 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-13 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
David Powell, Councilor, Owner, Convenience Store	Shelving	\$ 250

II-E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-13 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation - The City should publish annual individual salaries as required.

Response - We will publish salaries as required.

Conclusion - Response accepted.

II-G-13 Deposits and Investments - I noted no instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-13 Unsubstantiated Disbursements - It was noted that not all debit/credit card charges were substantiated.

Recommendation - Disbursements should be substantiated with appropriate documentation.

Response - Debit/credit card charges will be appropriately substantiated in the future.

Conclusion - Response accepted.

**CITY OF UNDERWOOD
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013**

Part II: Other Findings Related to Required Statutory Reporting (Continued):

- II-I-13 Public Improvements - The City did not have an architect or engineer prepare the plans and specifications and calculate the estimated total cost of the Business Incubator Building as required by Chapter 26.3 of the Code of Iowa.

Recommendation - Before entering into contracts for a public improvement with an estimated total cost in excess of \$100,000, the Council should hire an architect or engineer to prepare the plans and calculate the estimated total cost of the public improvement.

Response - We under estimated the cost of the building. We will hire an architect or engineer for public improvements in excess of the threshold amount in future.

Conclusion - Response accepted.

- II-J-13 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

- II-K-13 Tax Increment Financing - Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness and bonds (indebtedness)) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Urban Renewal Area TIF Indebtedness was certified to the County Auditor before December 1 and no exceptions were noted.

- II-L-13 Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

CITY OF UNDERWOOD

UNDERWOOD, IOWA 51576

NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Underwood, Iowa.

The City's receipts totaled \$983,409 for the year ended June 30, 2013, a twenty percent decrease from the prior year. The receipts included \$308,902 from property tax, \$138,374 from tax incremental financing, \$203,268 from charges for services, \$215,134 from operating grants, contributions and restricted interest, \$6,575 from capital grants, contributions and restricted interest, \$95,905 from local option sales tax, \$100 from unrestricted investment earnings, \$7,651 from sale of assets and \$7,500 in other general receipts.

Disbursements for the year totaled \$957,768, a two percent decrease from the prior year, and included \$309,896 for community and economic development, \$156,684 for general government, and \$145,866, for public works. Also, disbursements for business-type activities totaled \$135,676.

A copy of the audit report is available for review in the City Clerk's office, in the office of the Auditor of State and on the Auditor of State's web site <http://auditor.iowa.gov/reports/index.html>.

